

SIMMONS FIRST NATIONAL CORP

Form 10-Q

August 09, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2006

Commission File Number 0-6253

SIMMONS FIRST NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Arkansas
(State or other jurisdiction of
incorporation or organization)

71-0407808
(I.R.S. Employer
Identification No.)

501 Main Street, Pine Bluff, Arkansas
(Address of principal executive offices)

71601
(Zip Code)

870-541-1000
(Registrant's telephone number, including area code)

Not Applicable

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. S Yes £ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
£ Large accelerated filer S Accelerated filer £ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). £ Yes S No

The number of shares outstanding of the Registrant's Common Stock as of July 26, 2006 was 14,196,589.

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Simmons First National Corporation
Quarterly Report on Form 10-Q
June 30, 2006

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Simmons First National Corporation
Consolidated Balance Sheets
June 30, 2006 and December 31, 2005

ASSETS

| (In thousands, except share data) | June 30, 2006 (Unaudited) | December 31, 2005 |
|---|---------------------------------|----------------------|
| Cash and non-interest bearing balances due from banks | \$ 89,275 | \$ 75,461 |
| Interest bearing balances due from banks | 26,265 | 14,397 |
| Federal funds sold | 22,570 | 11,715 |
| Cash and cash equivalents | 138,110 | 101,573 |
| Investment securities | 527,829 | 521,789 |
| Mortgage loans held for sale | 13,248 | 7,857 |
| Assets held in trading accounts | 4,606 | 4,631 |
| Loans | 1,738,628 | 1,718,107 |
| Allowance for loan losses | (26,174) | (26,923) |
| Net loans | 1,712,454 | 1,691,184 |
| Premises and equipment | 65,686 | 63,360 |
| Foreclosed assets held for sale, net | 1,740 | 1,540 |
| Interest receivable | 18,571 | 18,754 |
| Bank owned life insurance | 33,985 | 33,269 |
| Goodwill | 60,605 | 60,605 |
| Core deposit premiums | 4,613 | 5,029 |
| Other assets | 15,809 | 14,177 |
| TOTAL ASSETS | \$ 2,597,256 | \$ 2,523,768 |

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Balance Sheets
June 30, 2006 and December 31, 2005

LIABILITIES AND STOCKHOLDERS' EQUITY

| (In thousands, except share data) | June 30, 2006 (Unaudited) | December 31, 2005 |
|---|---------------------------------|----------------------|
| LIABILITIES | | |
| Non-interest bearing transaction accounts | \$ 330,946 | \$ 331,113 |
| Interest bearing transaction accounts and savings deposits | 761,346 | 749,925 |
| Time deposits | 1,018,098 | 978,920 |
| Total deposits | 2,110,390 | 2,059,958 |
| Federal funds purchased and securities sold under agreements to repurchase | 89,684 | 107,223 |
| Short-term debt | 45,054 | 8,031 |
| Long-term debt | 83,073 | 87,020 |
| Accrued interest and other liabilities | 21,876 | 17,451 |
| Total liabilities | 2,350,077 | 2,279,683 |
| STOCKHOLDERS' EQUITY | | |
| Capital stock | | |
| Class A, common, par value \$0.01 a share, authorized 30,000,000 shares, 14,199,100 issued and outstanding at 2006 and 14,326,923 at 2005 | 142 | 143 |
| Surplus | 49,607 | 53,723 |
| Undivided profits | 203,165 | 194,579 |
| Accumulated other comprehensive income (loss) | | |
| Unrealized appreciation (depreciation) on available-for-sale securities, net of income tax credits of \$3,441 at 2006 and \$2,615 at 2005 | (5,735) | (4,360) |
| Total stockholders' equity | 247,179 | 244,085 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,597,256 | \$ 2,523,768 |

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Income
Three Months and Six Months Ended June 30, 2006 and 2005

| (In thousands, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|------------------------------|---------------|
| | 2006 (Unaudited) | 2005 | 2006 (Unaudited) | 2005 |
| INTEREST INCOME | | | | |
| Loans | \$ 31,694 | \$ 27,175 | \$ 61,781 | \$ 52,588 |
| Federal funds sold | 192 | 273 | 367 | 600 |
| Investment securities | 4,978 | 4,659 | 9,808 | 9,233 |
| Mortgage loans held for sale | 128 | 134 | 228 | 253 |
| Assets held in trading accounts | 19 | 25 | 44 | 50 |
| Interest bearing balances due from banks | 259 | 103 | 556 | 299 |
| TOTAL INTEREST INCOME | 37,270 | 32,369 | 72,784 | 63,023 |
| INTEREST EXPENSE | | | | |
| Deposits | 12,641 | 7,930 | 23,909 | 14,843 |
| Federal funds purchased and securities sold under agreements to repurchase | 1,064 | 728 | 2,168 | 1,273 |
| Short-term debt | 225 | 130 | 321 | 143 |
| Long-term debt | 1,148 | 1,104 | 2,242 | 2,192 |
| TOTAL INTEREST EXPENSE | 15,078 | 9,892 | 28,640 | 18,451 |
| NET INTEREST INCOME | 22,192 | 22,477 | 44,144 | 44,572 |
| Provision for loan losses | 789 | 1,939 | 2,497 | 4,159 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 21,403 | 20,538 | 41,647 | 40,413 |
| NON-INTEREST INCOME | | | | |
| Trust income | 1,293 | 1,349 | 2,660 | 2,734 |
| Service charges on deposit accounts | 4,209 | 4,153 | 7,972 | 7,567 |
| Other service charges and fees | 592 | 454 | 1,250 | 1,039 |
| Income on sale of mortgage loans, net of commissions | 755 | 712 | 1,431 | 1,395 |
| Income on investment banking, net of commissions | 90 | 161 | 197 | 219 |
| Credit card fees | 2,699 | 2,584 | 5,157 | 4,924 |
| Premiums on sale of student loans | 659 | 642 | 1,395 | 1,276 |
| Bank owned life insurance income | 415 | 218 | 716 | 357 |

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| | | | | |
|--|-----------------|-----------------|------------------|------------------|
| Other income | 804 | 724 | 1,350 | 1,558 |
| Gain (loss) on sale of securities, net of taxes | — | (168) | — | (168) |
| TOTAL NON-INTEREST INCOME | 11,516 | 10,829 | 22,128 | 20,901 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 13,466 | 12,697 | 26,971 | 25,529 |
| Occupancy expense, net | 1,541 | 1,394 | 3,061 | 2,831 |
| Furniture and equipment expense | 1,456 | 1,406 | 2,874 | 2,855 |
| Loss on foreclosed assets | 40 | 55 | 73 | 103 |
| Deposit insurance | 71 | 69 | 140 | 142 |
| Other operating expenses | 5,727 | 5,343 | 11,307 | 10,923 |
| TOTAL NON-INTEREST EXPENSE | 22,301 | 20,964 | 44,426 | 42,383 |
| INCOME BEFORE INCOME TAXES | | | | |
| Provision for income taxes | 10,618 | 10,403 | 19,349 | 18,931 |
| NET INCOME | \$ 7,296 | \$ 6,943 | \$ 13,284 | \$ 12,803 |
| BASIC EARNINGS PER SHARE | | | | |
| | \$ 0.51 | \$ 0.48 | \$ 0.93 | \$ 0.89 |
| DILUTED EARNINGS PER SHARE | | | | |
| | \$ 0.51 | \$ 0.47 | \$ 0.92 | \$ 0.87 |

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2006 and 2005

| (In thousands) | June 30, 2006 | June 30, 2005 |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 13,284 | \$ 12,803 |
| Items not requiring (providing) cash | | |
| Depreciation and amortization | 2,710 | 2,419 |
| Provision for loan losses | 2,497 | 4,159 |
| Net amortization (accretion) of investment securities | 311 | (141) |
| Deferred income taxes | (482) | 566 |
| (Gain) loss on sale of securities, net of taxes | — | 168 |
| Bank owned life insurance income | (716) | (357) |
| Changes in | | |
| Interest receivable | 183 | (1,457) |
| Mortgage loans held for sale | (5,391) | 885 |
| Assets held in trading accounts | 24 | 236 |
| Other assets | (1,631) | (973) |
| Accrued interest and other liabilities | 4,756 | 423 |
| Income taxes payable | 147 | 924 |
| Net cash provided (used) by operating activities | 15,692 | 19,655 |
| INVESTING ACTIVITIES | | |
| Net originations of loans | (24,525) | (95,418) |
| Purchases of premises and equipment, net | (4,620) | (3,879) |
| Proceeds from sale of foreclosed assets | 558 | 1,160 |
| Proceeds from sale of securities | — | 1,225 |
| Proceeds from maturities of available-for-sale securities | 13,512 | 32,295 |
| Purchases of available-for-sale securities | (6,805) | (39,398) |
| Proceeds from maturities of held-to-maturity securities | 9,933 | 16,891 |
| Purchases of held-to-maturity securities | (24,365) | (19,635) |
| Purchase of bank owned life insurance | — | (25,000) |
| Net cash provided (used) by investing activities | (36,312) | (131,759) |
| FINANCING ACTIVITIES | | |
| Net increase (decrease) in deposits | 50,433 | 67,096 |
| Net proceeds (repayments) of short-term debt | 37,023 | 74,478 |
| Dividends paid | (4,698) | (4,312) |
| Proceeds from issuance of long-term debt | — | 562 |
| Repayment of long-term debt | (3,947) | (5,440) |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase | (17,538) | (22,530) |
| Repurchase of common stock, net | (4,116) | (7,221) |
| Net cash provided (used) by financing activities | 57,157 | 102,633 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 36,537 | (9,471) |

| | | |
|---|------------|------------|
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 101,573 | 153,731 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 138,110 | \$ 144,260 |

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2006 and 2005

| (In thousands, except share data) | Common Stock | Surplus | Accumulated Other Comprehensive Income (loss) | Undivided Profits | Total |
|---|-----------------|-----------|--|----------------------|------------|
| Balance, December 31, 2004 | \$ 146 | \$ 62,826 | \$ (1,124) | \$ 176,374 | \$ 238,222 |
| Comprehensive income | | | | | |
| Net income | — | — | — | 12,803 | 12,803 |
| Change in unrealized depreciation on available-for-sale securities, net of income tax credit of \$480 | — | — | (801) | — | (801) |
| Comprehensive income | | | | | 12,002 |
| Stock issued as bonus shares - 5,620 shares | — | 138 | — | — | 138 |
| Exercise of stock options - 29,480 shares | — | 435 | — | — | 435 |
| Securities exchanged under stock option plan | — | (145) | — | — | (145) |
| Repurchase of common stock - 297,160 shares | (2) | (7,646) | — | — | (7,648) |
| Dividends paid - \$0.30 per share | — | — | — | (4,312) | (4,312) |
| Balance, June 30, 2005 (Unaudited) | 144 | 55,608 | (1,925) | 184,865 | 238,692 |
| Comprehensive income | | | | | |
| Net income | — | — | — | 14,159 | 14,159 |
| Change in unrealized depreciation on available-for-sale securities, net of income tax credit of \$1,462 | — | — | (2,435) | — | (2,435) |
| Comprehensive income | | | | | 11,724 |
| Exercise of stock options - 76,940 shares | 1 | 997 | — | — | 998 |
| Securities exchanged under stock option plan | — | (843) | — | — | (843) |
| Repurchase of common stock - 74,293 shares | (2) | (2,039) | — | — | (2,041) |
| Dividends paid - \$0.31 per share | — | — | — | (4,445) | (4,445) |
| Balance, December 31, 2005 | 143 | 53,723 | (4,360) | 194,579 | 244,085 |
| Comprehensive income | | | | | |
| Net income | — | — | — | 13,284 | 13,284 |
| Change in unrealized depreciation on available-for-sale securities, net of income tax credit of \$826 | — | — | (1,375) | — | (1,375) |
| Comprehensive income | | | | | 11,909 |

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| | | | | | | | | | | |
|---|-----|---------|----|---------|---------|---------|----|---------|----|---------|
| Stock issued as bonus shares - 7,700 shares | — | 209 | — | — | 209 | | | | | |
| Exercise of stock options - 51,580 shares | 1 | 788 | — | — | 789 | | | | | |
| Securities exchanged under stock option plan | — | (640) | — | — | (640) | | | | | |
| Stock granted under stock-based compensation plans | — | 50 | — | — | 50 | | | | | |
| Repurchase of common stock - 164,900 shares | (2) | (4,523) | — | — | (4,525) | | | | | |
| Dividends paid - \$0.33 per share | — | — | — | (4,698) | (4,698) | | | | | |
| Balance, June 30, 2006 (Unaudited) | \$ | 142 | \$ | 49,607 | \$ | (5,735) | \$ | 203,165 | \$ | 247,179 |

See Condensed Notes to Consolidated Financial Statements.

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SIMMONS FIRST NATIONAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Simmons First National Corporation and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2005 has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2005 filed with the Securities and Exchange Commission.

On January 1, 2006, the Company began recognizing compensation expense for stock options with the adoption of Statement of Financial Accounting Standards (SFAS) No. 123, Share-Based Payment (Revised 2004). See Note 11 - Stock Based Compensation for additional information. There have been no other significant changes to the Company's accounting policies from the 2005 Form 10-K.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of per share earnings for the three and six months ended June 30, 2006 and 2005.

| (In thousands, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income | \$ 7,296 | \$ 6,943 | \$ 13,284 | \$ 12,803 |
| Average common shares outstanding | 14,248 | 14,365 | 14,256 | 14,408 |
| Average potential dilutive common shares | 259 | 304 | 259 | 304 |
| Average diluted common shares | 14,507 | 14,669 | 14,515 | 14,712 |
| Basic earnings per share | \$ 0.51 | \$ 0.48 | \$ 0.93 | \$ 0.89 |
| Diluted earnings per share | \$ 0.51 | \$ 0.47 | \$ 0.92 | \$ 0.87 |

[Back to Table of Contents](#)**NOTE 2: INVESTMENT SECURITIES**

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

| (In thousands) | June 30, 2006 | | | | December 31, 2005 | | | |
|----------------------------------|-------------------|------------------------------|---------------------------------|----------------------------|----------------------|------------------------------|---------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
| Held-to-Maturity | | | | | | | | |
| U.S. Treasury | \$ 1,002 | \$ — | \$ (12) | \$ 990 | \$ 1,004 | \$ — | \$ (20) | \$ 984 |
| U.S. Government agencies | 42,000 | — | (813) | 41,187 | 28,000 | — | (473) | 27,527 |
| Mortgage-backed securities | 167 | 1 | — | 168 | 187 | 3 | — | 190 |
| State and political subdivisions | 116,770 | 425 | (2,560) | 114,635 | 117,148 | 662 | (1,298) | 116,512 |
| Other securities | 4,673 | — | — | 4,673 | 3,960 | — | — | 3,960 |
| | \$ 164,612 | \$ 426 | \$ (3,385) | \$ 161,653 | \$ 150,299 | \$ 665 | \$ (1,791) | \$ 149,173 |
| Available-for-Sale | | | | | | | | |
| U.S. Treasury | \$ 7,487 | \$ — | \$ (89) | \$ 7,398 | \$ 10,989 | \$ — | \$ (102) | \$ 10,887 |
| U.S. Government agencies | 344,906 | 15 | (9,303) | 335,618 | 348,570 | 35 | (7,615) | 340,990 |
| Mortgage-backed securities | 3,312 | — | (238) | 3,074 | 3,392 | 9 | (92) | 3,309 |
| State and political subdivisions | 1,360 | 13 | — | 1,373 | 3,014 | 39 | — | 3,053 |
| Other securities | 15,328 | 426 | — | 15,754 | 12,561 | 690 | — | 13,251 |
| | \$ 372,393 | \$ 454 | \$ (9,630) | \$ 363,217 | \$ 378,526 | \$ 773 | \$ (7,809) | \$ 371,490 |

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$418,473,000 at June 30, 2006 and \$411,580,000 at December 31, 2005.

The book value of securities sold under agreements to repurchase amounted to \$69,255,000 and \$67,778,000 for June 30, 2006 and December 31, 2005, respectively.

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Income earned on securities for the six months ended June 30, 2006 and 2005, is as follows:

| (In thousands) | 2006 | 2005 |
|--------------------|----------|----------|
| Taxable | | |
| Held-to-maturity | \$ 726 | \$ 497 |
| Available-for-sale | 6,726 | 6,315 |
| Non-taxable | | |
| Held-to-maturity | 2,294 | 2,312 |
| Available-for-sale | 62 | 109 |
| Total | \$ 9,808 | \$ 9,233 |

Maturities of investment securities at June 30, 2006 are as follows:

| (In thousands) | Held-to-Maturity | | Available-for-Sale | |
|------------------------------|------------------|------------|--------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| One year or less | \$ 18,682 | \$ 18,570 | \$ 118,431 | \$ 116,970 |
| After one through five years | 55,883 | 55,199 | 173,017 | 167,583 |
| After five through ten years | 74,734 | 72,801 | 61,411 | 58,886 |
| After ten years | 11,570 | 11,340 | 4,206 | 4,024 |
| Other securities | 3,743 | 3,743 | 15,328 | 15,754 |
| Total | \$ 164,612 | \$ 161,653 | \$ 372,393 | \$ 363,217 |

Gross realized losses of \$0 and \$275,000 were recognized for the six-month periods ended June 30, 2006 and 2005. There were no realized gains over the same periods.

Most of the state and political subdivision debt obligations are non-rated bonds and represent small, Arkansas issues, which are evaluated on an ongoing basis.

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The various categories are summarized as follows:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Consumer | | |
| Credit cards | \$ 132,464 | \$ 143,058 |
| Student loans | 77,085 | 89,818 |
| Other consumer | 140,631 | 138,051 |
| Real Estate | | |
| Construction | 248,834 | 238,898 |
| Single family residential | 348,777 | 340,839 |
| Other commercial | 487,288 | 479,684 |
| Commercial | | |
| Commercial | 188,480 | 184,920 |
| Agricultural | 86,244 | 68,761 |
| Financial institutions | 16,152 | 20,499 |
| Other | 12,673 | 13,579 |
| Total loans before allowance for loan losses | \$ 1,738,628 | \$ 1,718,107 |

As of June 30, 2006, credit card loans, which are unsecured, were \$132,464,000, or 7.6% of total loans, versus \$143,058,000, or 8.3% of total loans at December 31, 2005. The credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Credit card loans are regularly reviewed to facilitate the identification and monitoring of creditworthiness.

At June 30, 2006 and December 31, 2005, impaired loans totaled \$12,532,000 and \$14,804,000, respectively. All impaired loans had either specific or general allocations within the allowance for loan losses. Allocations of the allowance for loan losses relative to impaired loans were \$4,060,000 at June 30, 2006 and \$3,868,000 at December 31, 2005. Approximately \$207,000 and \$188,000 of interest income was recognized on average impaired loans of \$13,524,000 and \$15,689,000 as of June 30, 2006 and 2005, respectively. Interest recognized on impaired loans on a cash basis during the first six months of 2006 and 2005 was immaterial.

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Transactions in the allowance for loan losses are as follows:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---|------------------|----------------------|
| Balance, beginning of year | \$ 26,923 | \$ 26,508 |
| Additions | | |
| Provision charged to expense | 2,497 | 4,159 |
| | 29,420 | 30,667 |
| Deductions | | |
| Losses charged to allowance, net of recoveries of \$1,359 and \$1,565 for the first six months of 2006 and 2005, respectively | 1,721 | 3,654 |
| Reclassification of reserve related to unfunded commitments ⁽¹⁾ | 1,525 | |
| Balance, June 30 | \$ 26,174 | 27,013 |
| Additions | | |
| Provision charged to expense | | 3,366 |
| Deductions | | |
| Losses charged to allowance, net of recoveries of \$2,251 for the last six months of 2005 | | 3,456 |
| Balance, end of year | | \$ 26,923 |

(1) On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities.

NOTE 4: GOODWILL AND CORE DEPOSIT PREMIUMS

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Core deposit premiums are periodically evaluated as to the recoverability of their carrying value.

The carrying basis and accumulated amortization of core deposit premiums (net of core deposit premiums that were fully amortized) at June 30, 2006 and December 31, 2005, were as follows:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---------------------------|------------------|----------------------|
| Gross carrying amount | \$ 7,246 | \$ 7,246 |
| Accumulated amortization | (2,633) | (2,217) |
| Net core deposit premiums | \$ 4,613 | \$ 5,029 |

Core deposit premium amortization expense recorded for the six months ended June 30, 2006 and 2005, was \$416,000 and \$415,000, respectively. The Company's estimated amortization

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expense for the remainder of 2006 is \$414,000, and for each of the following four years is: 2007 - \$818,000; 2008 - \$807,000; 2009 - \$802,000; and 2010 - \$698,000.

NOTE 5: TIME DEPOSITS

Time deposits include approximately \$394,489,000 and \$364,177,000 of certificates of deposit of \$100,000 or more at June 30, 2006 and December 31, 2005 respectively.

NOTE 6: INCOME TAXES

The provision for income taxes is comprised of the following components:

| (In thousands) | June 30, 2006 | June 30, 2005 |
|--------------------------------|------------------|------------------|
| Income taxes currently payable | \$ 6,547 | \$ 5,669 |
| Deferred income taxes | (482) | 459 |
| Provision for income taxes | \$ 6,065 | \$ 6,128 |

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Deferred tax assets | | |
| Allowance for loan losses | \$ 8,682 | \$ 8,329 |
| Valuation of foreclosed assets | 74 | 74 |
| Deferred compensation payable | 1,196 | 1,109 |
| FHLB advances | 73 | 97 |
| Vacation compensation | 747 | 727 |
| Loan interest | 241 | 241 |
| Available-for-sale securities | 3,441 | 2,615 |
| Other | 238 | 363 |
| Total deferred tax assets | 14,692 | 13,555 |
| Deferred tax liabilities | | |
| Accumulated depreciation | (894) | (1,128) |
| Deferred loan fee income and expenses, net | (685) | (657) |
| FHLB stock dividends | (800) | (740) |
| Goodwill and core deposit premium amortization | (807) | (807) |
| Other | (3,827) | (3,852) |
| Total deferred tax liabilities | (7,013) | (7,184) |
| Net deferred tax assets included in other assets on balance sheets | \$ 7,679 | \$ 6,371 |

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A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

| (In thousands) | June 30, 2006 | June 30, 2005 |
|--------------------------------------|------------------|------------------|
| Computed at the statutory rate (35%) | \$ 6,772 | \$ 6,626 |
| Increase (decrease) resulting from: | | |
| Tax exempt income | (925) | (953) |
| Other differences, net | 218 | 455 |
| Actual tax provision | \$ 6,065 | \$ 6,128 |

NOTE 7: SHORT-TERM AND LONG-TERM DEBT

Long-term debt at June 30, 2006 and December 31, 2005, consisted of the following components:

| (In thousands) | June 30, 2006 | December 31, 2005 |
|---|------------------|----------------------|
| Note Payable, due 2007, at a floating rate of 0.90% above the 30 day LIBOR rate, reset monthly, unsecured | \$ 4,000 | \$ 4,000 |
| FHLB advances, due 2006 to 2024, 2.12% to 8.41% secured by residential real estate loans | 48,143 | 52,090 |
| Trust preferred securities, due 2033, fixed at 8.25%, callable in 2008 without penalty | 10,310 | 10,310 |
| Trust preferred securities, due 2033, floating rate of 2.80% above the three-month LIBOR rate, reset quarterly, callable in 2008 without penalty | 10,310 | 10,310 |
| Trust preferred securities, due 2033, fixed rate of 6.97% through 2010, thereafter, at a floating rate of 2.80% above the three-month LIBOR rate, reset quarterly, callable in 2010 without penalty | 10,310 | 10,310 |
| | \$ 83,073 | \$ 87,020 |

At June 30, 2006 the Company had Federal Home Loan Bank ("FHLB") advances with original maturities of one year or less of \$44.0 million with a weighted average rate of 5.13% which are not included in the above table.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of each trust. The preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by the Company. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each respective trust's obligations under the trust securities issued by each respective trust.

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Aggregate annual maturities of long-term debt at June 30, 2006 are:

| (In thousands) | Year | Annual Maturities |
|----------------|------------|----------------------|
| | 2006 | \$ 7,241 |
| | 2007 | 10,010 |
| | 2008 | 9,874 |
| | 2009 | 5,721 |
| | 2010 | 2,396 |
| | Thereafter | 47,831 |
| | Total | \$ 83,073 |

NOTE 8: CONTINGENT LIABILITIES

The Company and/or its subsidiaries have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position of the Company and its subsidiaries. The Company or its subsidiaries are the subject of three (3) lawsuits asserting claims against the Company or its Subsidiaries.

On October 1, 2003, an action in Pulaski County Circuit Court was filed by Thomas F. Carter, Tena P. Carter and certain related entities against Simmons First Bank of South Arkansas and Simmons First National Bank alleging wrongful conduct by the banks in the collection of certain loans. The plaintiffs are seeking \$2,000,000 in compensatory damages and \$10,000,000 in punitive damages. The Company has filed a Motion to Dismiss. The plaintiffs have been granted additional time to discover any evidence for litigation. At this time, no basis for any material liability has been identified. The Company and the banks plan to vigorously defend the claims asserted in the suit.

On April 3, 2006, an action in Johnson County Circuit Court was filed by Tria Xiong and Mai Lee Xiong against Simmons First Bank of Russellville and certain individuals alleging wrongful conduct by the bank in the underwriting and origination of certain loans. The plaintiffs are seeking an unspecified sum in compensatory damages and \$1,000,000.00 in punitive damages. The bank was just recently served and is preparing a response to this suit. At this time, no basis for any material liability has been identified. The bank plans to vigorously defend the claims asserted in the suit.

On June 22, 2006, an action in Johnson County Circuit Court was filed by Wa Khue Moua and Maycha Moua against Simmons First Bank of Russellville alleging wrongful conduct by the bank in the underwriting and origination of certain loans. The plaintiffs are seeking \$275,000.00 in compensatory damages and \$500,000.00 in punitive damages. The bank has filed an answer in this matter. At this time, no basis for any material liability has been identified. The bank plans to vigorously defend the claims asserted in the suit.

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NOTE 9: CAPITAL STOCK

On May 25, 2004, the Company announced the adoption by the Board of Directors of a stock repurchase program. The program authorizes the repurchase of up to 5% of the then outstanding Common Stock, or 733,485 shares. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock dividends and general corporate purposes.

During the six-month period ended June 30, 2006, the Company repurchased 164,900 shares of stock under the repurchase plan with a weighted average repurchase price of \$27.49 per share. Under the current stock repurchase plan, the Company can repurchase an additional 379,167 shares.

NOTE 10: UNDIVIDED PROFITS

The Company's subsidiary banks are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. The approval of the Comptroller of the Currency is required, if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits, as defined, for that year combined with its retained net profits of the preceding two years. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of current year earnings plus 75% of the retained net earnings of the preceding year. At June 30, 2006, the bank subsidiaries had approximately \$11 million available for payment of dividends to the Company, without prior approval of the regulatory agencies.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% "Tier 1 leverage capital" ratio, a 6% "Tier 1 risk-based capital" ratio, and a 10% "total risk-based capital" ratio. As of June 30, 2006, each of the eight subsidiary banks met the capital standards for a well-capitalized institution. The Company's "total risk-based capital" ratio was 13.49% at June 30, 2006.

NOTE 11: STOCK BASED COMPENSATION

Prior to January 1, 2006, employee compensation expense under stock option plans was reported only if options were granted below market price at grant date in accordance with the intrinsic value method of Accounting Principles Board Opinion (APB) No.25, "Accounting for Stock Issued to Employees," and related interpretations. Because the exercise price of the Company's employee stock options always equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized on options granted. As stated in Note 1 - Significant Accounting Policies, the Company adopted the provisions of SFAS 123R on January 1, 2006. SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant. The Company transitioned to fair-value based accounting for stock based compensation using a modified version of prospective application ("modified prospective application"). Under modified prospective application, as it is applicable to the Company, SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (generally referring to non-vested awards) that were outstanding as of January 1, 2006, will be recognized as the remaining requisite service is rendered during the period of and/or the periods after the adoption of SFAS 123R. The attribution of compensation cost for those earlier awards is based on the

same method and on the same grant date fair values previously determined for the pro forma disclosures required for companies that did not previously adopt the fair value accounting method for stock-based employee compensation.

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modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (generally referring to non-vested awards) that were outstanding as of January 1, 2006, will be recognized as the remaining requisite service is rendered during the period of and/or the periods after the adoption of SFAS 123R. The attribution of compensation cost for those earlier awards is based on the same method and on the same grant date fair values previously determined for the pro forma disclosures required for companies that did not previously adopt the fair value accounting method for stock-based employee compensation.

Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006, is based on the grant date fair value. For all awards except stock option awards, the grant date fair value is the market value per share as of the grant date. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options.

As a result of applying the provisions of SFAS 123R during the three and six months ended June 30, 2006, the Company recognized additional stock-based compensation expense related to stock options of \$46,129 and \$50,339. The increase in stock-based compensation expense related to stock options during the three and six months ended June 30, 2006, resulted in no change in basic or diluted earnings per share.

Stock-based compensation expense totaled \$179,955 and \$194,569 during the three and six months ended June 30, 2006 and \$106,287 and \$116,691 during the three and six months ended June 30, 2005. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. Unrecognized stock-based compensation expense related to stock options totaled \$325,159 at June 30, 2006. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.24 years. Unrecognized stock-based compensation expense related to non-vested stock awards was \$371,131 at June 30, 2006. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 3.29 years.

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The following pro forma information presents net income and earnings per share for the three and six months ended June 30, 2005, as if the fair value method of SFAS 123R had been applied.

| (In thousands, except per share data) | Three Months Ended June 30, 2005 | Six Months Ended June 30, 2005 |
|---|--|-----------------------------------|
| Net income, as reported | \$ 6,943 | \$ 12,803 |
| Add: Stock-based employee compensation included in reported net income, net of related tax effects | 66 | 73 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (132) | (204) |
| Pro forma net income | \$ 6,877 | \$ 12,672 |
| Earnings per share: | | |
| Basic - as reported | \$ 0.48 | \$ 0.89 |
| Basic - pro forma | \$ 0.48 | \$ 0.88 |
| Diluted - as reported | \$ 0.47 | \$ 0.87 |
| Diluted - pro forma | \$ 0.47 | \$ 0.86 |

The Company's Board of Directors has adopted various stock compensation plans. The plans provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, and bonus stock awards. Pursuant to the plans, shares are reserved for future issuance by the Company, upon exercise of stock options or awarding of bonus shares granted to officers and other key employees.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses various assumptions. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Forfeitures are estimated at the time of grant, and are based partially on historical experience.

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The table below summarizes the transactions under the Company's stock option plans for the six months ended June 30, 2006:

| (In thousands, except per share data) | Shares | Weighted Average Exercisable Price |
|---------------------------------------|--------|---|
| Outstanding, January 1, 2006 | 609 | \$ 14.77 |
| Granted | 60 | 26.19 |
| Forfeited/Expired | (27) | 13.50 |
| Exercised | (52) | 15.28 |
| Outstanding, June 30, 2006 | 590 | \$ 15.94 |
| Exercisable at June 30, 2006 | 524 | \$ 14.70 |

Total intrinsic value of options exercised for the six months ended June 30, 2006, was \$672,603.

There were 59,700 options granted during the six months ended June 30, 2006. The weighted-average fair value of options granted during the six months ended June 30, 2006 was \$5.01. The following weighted-average assumptions were used to estimate the fair value of options granted during the six months ended June 30, 2006:

| | |
|---------------------------------|------------|
| Expected dividend yield | 2.67% |
| Expected stock price volatility | 17.74% |
| Risk-free interest rate | 4.84% |
| Expected life of options | 5-10 Years |

As of June 30, 2006, there was \$696,290 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.80 years.

NOTE 12: ADDITIONAL CASH FLOW INFORMATION

| (In thousands) | Six Months Ended June 30, | |
|-------------------|------------------------------|-----------|
| | 2006 | 2005 |
| Interest paid | \$ 27,788 | \$ 17,696 |
| Income taxes paid | \$ 6,399 | \$ 5,663 |

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NOTE 13: CERTAIN TRANSACTIONS

From time to time the Company and its subsidiaries have made loans and other extensions of credit to directors, officers, their associates and members of their immediate families. From time to time directors, officers and their associates and members of their immediate families have placed deposits with the Company's subsidiary banks. Such loans, other extensions of credit and deposits were made in the ordinary course of business, on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present other unfavorable features.

NOTE 14: COMMITMENTS AND CREDIT RISK

The Company grants agri-business, commercial and residential loans to customers throughout Arkansas, along with credit card loans to customers throughout the United States. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At June 30, 2006, the Company had outstanding commitments to extend credit aggregating approximately \$211,765,000 and \$424,731,000 for credit card commitments and other loan commitments, respectively. At December 31, 2005, the Company had outstanding commitments to extend credit aggregating approximately \$194,614,000 and \$429,442,000 for credit card commitments and other loan commitments, respectively.

Letters of credit are conditional commitments issued by the Company, to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to \$4,602,000 and \$4,573,000 at June 30, 2006 and December 31, 2005, respectively, with terms ranging from 90 days to three years. At June 30, 2006 and December 31, 2005 the Company's deferred revenue under standby letter of credit agreements is approximately \$89,000 and \$43,000, respectively.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BKD, LLP

Certified Public Accountants
200 East Eleventh
Pine Bluff, Arkansas

Audit Committee, Board of Directors and Stockholders
Simmons First National Corporation
Pine Bluff, Arkansas

We have reviewed the accompanying consolidated balance sheet of **SIMMONS FIRST NATIONAL CORPORATION** as of June 30, 2006, and the related consolidated statements of income for the three-month and six-month periods ended June 30, 2006 and 2005, and the related consolidated statements of stockholders' equity and cash flows for the six-month periods ended June 30, 2006 and 2005. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 15, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BKD, LLP
BKD, LLP

Pine Bluff, Arkansas
August 2, 2006
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Simmons First National Corporation recorded earnings of \$7,296,000, or \$0.51 diluted earnings per share for the second quarter of 2006, compared to earnings of \$6,943,000, or \$0.47 diluted earnings per share for same period in 2005. This represents a \$353,000, or 5.1% increase in the second quarter 2006 earnings over 2005. From June 30, 2005 to June 30, 2006, quarterly diluted earnings per share increased by \$0.04, or 8.5%. Annualized return on average assets and annualized return on average stockholders' equity for the three-month period ended June 30, 2006, was 1.15% and 11.77%, compared to 1.12% and 11.74%, respectively, for the same period in 2005. On a quarter over quarter basis, the increase in earnings is primarily attributable to an increase in non-interest income, disciplined expense control, and a reduced provision for loan losses resulting from fewer credit card charge-offs and strong asset quality.

Earnings for the six-month period ended June 30, 2006, were \$13,284,000, or \$0.92 per diluted share. These earnings reflect an increase of \$481,000, or \$0.05 per share, when compared to the six-month period ended June 30, 2005, earnings of \$12,803,000, or \$0.87 per diluted share. Annualized return on average assets and annualized return on average stockholders' equity for the six-month period ended June 30, 2006, were 1.06% and 10.83%, compared to 1.05% and 10.89%, respectively, for the same period in 2005.

Asset quality remained strong through June 30, 2006. The non-performing assets ratio (the sum of non-performing loans and foreclosed assets divided by the sum of total loans and foreclosed assets) was 72 basis points and 58 basis points at June 30, 2006 and December 31, 2005, respectively. Non-performing loans to total loans were 62 basis points at the end of the quarter, compared to 49 basis points at December 31, 2005. The allowance for loan losses equaled 243% of non-performing loans as of June 30, 2006, compared to 319% as of year-end 2005. The allowance for loan losses as a percent of total loans equaled 1.51% and 1.57 % as of June 30, 2006 and December 31, 2005, respectively.

Annualized net charge-offs to total loans for the second quarter of 2006 were 25 basis points. Excluding credit cards, annualized net charge-offs to total loans were 19 basis points. The credit card annualized net charge-offs as a percent of the credit card portfolio were 1.01% for the quarter ended June 30, 2006, more than 350 basis points below the most recently published industry average of 4.81%. Credit card charge-offs increased during the fourth quarter of 2005 due to the new bankruptcy law that went into effect in October. While bankruptcy filings have declined significantly from fourth quarter highs, the Company does not expect that the year-to-date results will be maintained throughout the year. However, expectations are that credit card charge-offs will gradually return to the Company's historical level of approximately 2.50%.

Total assets for the Company at June 30, 2006, were \$2.597 billion, an increase of \$73.5 million, or 2.9% from December 31, 2005. Stockholders' equity at the end of the second quarter of 2006 was \$247.2 million, a \$3.1 million, or 1.3% increase from December 31, 2005.

Simmons First National Corporation is an Arkansas based financial holding company with eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. The Company's eight banks conduct financial operations from 83 offices, of which 81 are financial centers, located in 46 communities.

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CRITICAL ACCOUNTING POLICIES

Overview

Management has reviewed its various accounting policies. Based on this review management believes the policies most critical to the Company are the policies associated with its lending practices including the accounting for the allowance for loan losses, treatment of goodwill, recognition of fee income, estimates of income taxes and employee benefit plans as it relates to stock options.

Loans

Loans which the Company has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for any loans charged-off, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the estimated life of the loan. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well secured and in the process of collection.

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is maintained at a level considered adequate to provide for potential loan losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred as of period end. This estimate is based on management's evaluation of the loan portfolio, as well as on prevailing and anticipated economic conditions and historical losses by loan category. General reserves have been established, based upon the aforementioned factors and allocated to the individual loan categories. Allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of loan collateral. The unallocated reserve generally serves to compensate for the uncertainty in estimating loan losses, including the possibility of changes in risk ratings and specific reserve allocations in the loan portfolio as a result of the Company's ongoing risk management system.

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loan. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan losses. Specific allocations are applied when quantifiable factors are present requiring a greater allocation than that established using the classified asset approach, as defined by the Office of the Comptroller of the Currency. Accrual of interest is discontinued and interest accrued and unpaid is removed at the time such amounts are delinquent 90 days, unless management is aware of circumstances which warrant continuing the interest accrual. Interest is recognized for nonaccrual loans only upon receipt and only after all principal amounts are current according to the terms of the contract.

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Goodwill

Goodwill represents the excess of cost over the fair value of net assets of acquired subsidiaries and branches. Financial Accounting Standards Board Statement No. 142 and No. 147 eliminated the amortization for these assets as of January 1, 2002. While goodwill is not amortized, impairment testing of goodwill is performed annually, or more frequently if certain conditions occur. The Company did not record impairment of goodwill in 2006 or 2005.

Core Deposit Premiums

Core deposit premiums are being amortized using both straight-line and accelerated methods over periods ranging from 8 to 15 years. Such assets are periodically evaluated as to the recoverability of their carrying value.

Fee Income

Periodic credit card fees, net of direct origination costs, are recognized as revenue on a straight-line basis over the period the fee entitles the cardholder to use the card. Origination fees and costs for other loans are being amortized over the estimated life of the loan.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Employee Benefit Plans

The Company has a stock-based employee compensation plan. In December 2004, FASB issued SFAS No. 123, Share-Based Payment (Revised 2004), which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. As discussed in Note 11 - Stock-Based Compensation in the accompanying condensed notes to consolidated financial statements included elsewhere in this report, the standard requires companies to expense the fair value of all stock options that have future vesting provisions, are modified, or are newly granted beginning on the grant date of such options. SFAS 123R became effective and was adopted by the Company on January 1, 2006.

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NET INTEREST INCOME

Overview

Net interest income, the Company's principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 37.50%.

The Company's practice is to limit exposure to interest rate movements by maintaining a significant portion of earning assets and interest bearing liabilities in short-term repricing. Historically, approximately 70% of the Company's loan portfolio and approximately 80% of the Company's time deposits have repriced in one year or less. These historical percentages are consistent with the Company's current interest rate sensitivity.

Net Interest Income Quarter-to-Date Analysis

For the three-month period ended June 30, 2006, net interest income on a fully taxable equivalent basis was \$23.0 million, a decrease of \$284,000, or 1.2%, from the same period in 2005. The decrease in net interest income was the result of a \$4.9 million increase in interest income offset by a \$5.2 million increase in interest expense.

The \$4.9 million increase in interest income primarily is the result of a 73 basis point increase in yield on earning assets associated with the higher interest rate environment, as well as a \$45 million increase in average interest earning assets due to internal growth and seasonal increases in the loan portfolio. The growth in average interest earning assets resulted in a \$1.1 million improvement in interest income. The growth in average loans accounted for a \$1.6 million increase, offset by lower average balances in other interest earning assets. The higher interest rates accounted for a \$3.8 million increase in interest income. The most significant component of this increase was the \$3.0 million increase associated with the repricing of the Company's loan portfolio that resulted from loans that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 70% of the Company's loan portfolio reprices in one year or less. As a result, the average rate earned on the loan portfolio increased 69 basis points from 6.74% to 7.43%.

The \$5.2 million increase in interest expense is the result of a 102 basis point increase in cost of funds due to competitive repricing during a higher interest rate environment, coupled with a \$38.5 million increase in average interest bearing liabilities generated through internal growth. The higher level of average interest bearing liabilities resulted in a \$341,000 increase in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of an increase of approximately \$56.4 million from internal deposit growth, offset by a reduction of \$9.8 million in federal funds purchased and short-term debt, along with an \$8.1 million reduction in average long-term debt due primarily to scheduled repayments of FHLB borrowings. The higher interest rates accounted for a \$4.8 million increase in interest expense. The most significant component of this increase was the \$3.1 million increase associated with the repricing of the Company's time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of the Company's time deposits reprice in one year or less. As a result, the average rate paid on time deposits increased 123 basis points from 2.60% to 3.83%.

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Net Interest Income Year-to-Date Analysis

For the six-month period ended June 30, 2006, net interest income on a fully taxable equivalent basis was \$45.7 million, a decrease of \$486,000, or 1.1%, from the same period in 2005. The decrease in net interest income was the result of a \$9.7 million increase in interest income offset by a \$10.2 million increase in interest expense.

The \$9.7 million increase in interest income primarily is the result of a 75 basis point increase in yield on earning assets associated with the higher interest rate environment, as well as a \$47 million increase in average interest earning assets due to internal growth and seasonal increases in the loan portfolio. The growth in average interest earning assets resulted in a \$2.5 million improvement in interest income. The growth in average loans accounted for a \$3.6 million increase, offset by lower average balances in other interest earning assets. The higher interest rates accounted for a \$7.2 million increase in interest income. The most significant component of this increase was the \$5.6 million increase associated with the repricing of the Company's loan portfolio that resulted from loans that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 70% of the Company's loan portfolio reprices in one year or less. As a result, the average rate paid on the loan portfolio increased 69 basis points from 6.63% to 7.32%.

The \$10.2 million increase in interest expense is the result of a 102 basis point increase in cost of funds due to competitive repricing during a higher interest rate environment, coupled with a \$45.6 million increase in average interest bearing liabilities generated through internal growth. The higher level of average interest bearing liabilities resulted in a \$719,000 increase in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of an increase of approximately \$51.5 million from internal deposit growth, offset by an \$8.7 million reduction in average long-term debt due primarily to scheduled repayments of FHLB borrowings. The higher interest rates accounted for a \$9.5 million increase in interest expense. The most significant component of this increase was the \$6.1 million increase associated with the repricing of the Company's time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of the Company's time deposits reprice in one year or less. As a result, the average rate paid on time deposits increased 124 basis points from 2.45% to 3.69%.

Net Interest Margin

The Company's net interest margin decreased 14 basis points to 4.01% for the three-month period ended June 30, 2006, when compared to 4.15% for the same period in 2005. This decrease in the net interest margin can be primarily attributed to several factors. First, one of the Company's higher yielding products, credit card loans, decreased approximately \$8.9 million from June 30, 2005 to June 30, 2006, resulting in margin compression. The remainder of the margin compression was due to the increase in the cost of funds resulting from deposit repricing, coupled with the effect of the flat yield curve between short-term and long-term interest rates. The Company expects to see continuing competitive pressure in deposit repricing in the short term, and anticipates continued margin compression for the remainder of 2006.

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[Back to Table of Contents](#)**Net Interest Income Tables**

Table 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month and six-month periods ended June 30, 2006 and 2005, respectively, as well as changes in fully taxable equivalent net interest margin for the three-month and six-month periods ended June 30, 2006 versus June 30, 2005.

Table 1: Analysis of Net Interest Income

(FTE =Fully Taxable Equivalent)

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Interest income | \$ 37,270 | \$ 32,369 | \$ 72,784 | \$ 63,023 |
| FTE adjustment | 804 | 803 | 1,584 | 1,642 |
| Interest income - FTE | 38,074 | 33,172 | 74,368 | 64,665 |
| Interest expense | 15,078 | 9,892 | 28,640 | 18,451 |
| Net interest income - FTE | \$ 22,996 | \$ 23,280 | \$ 45,728 | \$ 46,214 |
| Yield on earning assets - FTE | 6.65% | 5.92% | 6.55% | 5.80% |
| Cost of interest bearing liabilities | 3.08% | 2.06% | 2.96% | 1.94% |
| Net interest spread - FTE | 3.57% | 3.86% | 3.59% | 3.86% |
| Net interest margin - FTE | 4.01% | 4.15% | 4.03% | 4.16% |

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

| (In thousands) | Three Months Ended June 30, 2006 vs. 2005 | Six Months Ended June 30, 2006 vs. 2005 |
|---|--|---|
| | Increase due to change in earning assets | \$ 1,137 |
| Increase due to change in earning asset yields | 3,765 | 7,195 |
| Decrease due to change in interest bearing liabilities | (4,845) | (9,470) |
| Decrease due to change in interest rates paid on interest bearing liabilities | (341) | (719) |
| Increase in net interest income | \$ (284) | \$ (486) |

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Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for the three-month and six-month periods ended June 30, 2006 and 2005. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

| (\$ in thousands) | Three Months Ended June 30, | | | | | |
|--|-----------------------------|---------------------|---------------|-----------------|---------------------|---------------|
| | Average Balance | 2006 Income/Expense | Yield/Rate(%) | Average Balance | 2005 Income/Expense | Yield/Rate(%) |
| <u>ASSETS</u> | | | | | | |
| Earning Assets | | | | | | |
| Interest bearing | | | | | | |
| balances due from | | | | | | |
| banks | \$ 21,929 | \$ 259 | 4.74 | \$ 15,765 | \$ 103 | 2.63 |
| Federal funds sold | 16,138 | 192 | 4.77 | 35,157 | 273 | 3.12 |
| Investment securities - taxable | 411,548 | 3,782 | 3.69 | 439,010 | 3,458 | 3.17 |
| Investment securities - non-taxable | 119,138 | 1,914 | 6.44 | 122,129 | 1,921 | 6.33 |
| Mortgage loans held for sale | 8,426 | 128 | 6.09 | 9,425 | 134 | 5.72 |
| Assets held in trading accounts | 4,575 | 19 | 1.67 | 4,696 | 25 | 2.14 |
| Loans | 1,716,396 | 31,780 | 7.43 | 1,626,513 | 27,258 | 6.74 |
| Total interest earning assets | 2,298,150 | 38,074 | 6.65 | 2,252,695 | 33,172 | 5.92 |
| Non-earning assets | 247,112 | | | 228,104 | | |
| Total assets | \$ 2,545,262 | | | \$ 2,480,799 | | |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | | | | | |
| Liabilities | | | | | | |
| Interest bearing liabilities | | | | | | |
| Interest bearing transaction and savings accounts | | | | | | |
| | \$ 751,262 | \$ 2,909 | 1.55 | \$ 778,516 | \$ 1,859 | 0.96 |
| Time deposits | 1,018,887 | 9,732 | 3.83 | 935,250 | 6,071 | 2.60 |
| Total interest bearing deposits | 1,770,149 | 12,641 | 2.86 | 1,713,766 | 7,930 | 1.86 |
| Federal funds purchased and securities sold under | 96,041 | 1,064 | 4.44 | 105,145 | 728 | 2.78 |

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| | | | | | | |
|--|--------------|-----------|------|--------------|-----------|------|
| agreement to repurchase | | | | | | |
| Other borrowed funds | | | | | | |
| Short-term debt | 15,804 | 225 | 5.71 | 16,472 | 130 | 3.17 |
| Long-term debt | 82,957 | 1,148 | 5.55 | 91,045 | 1,104 | 4.86 |
| Total interest bearing liabilities | 1,964,951 | 15,078 | 3.08 | 1,926,428 | 9,892 | 2.06 |
| Non-interest bearing liabilities | | | | | | |
| Non-interest bearing deposits | 311,102 | | | 300,909 | | |
| Other liabilities | 20,486 | | | 16,271 | | |
| Total liabilities | 2,296,539 | | | 2,243,608 | | |
| Stockholders' equity | 248,723 | | | 237,191 | | |
| Total liabilities and stockholders' equity | \$ 2,545,262 | | | \$ 2,480,799 | | |
| Net interest spread | | | 3.57 | | | 3.86 |
| Net interest margin | | \$ 22,996 | 4.01 | | \$ 23,280 | 4.15 |

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| (In thousands) | Six Months Ended June 30, | | | | | |
|---|---------------------------|----------------------------|-------------------|--------------------|----------------------------|-------------------|
| | Average Balance | 2006 Income/ Expense | Yield/ Rate(%) | Average Balance | 2005 Income/ Expense | Yield/ Rate(%) |
| <u>ASSETS</u> | | | | | | |
| Earning Assets | | | | | | |
| Interest bearing | | | | | | |
| balances due from | | | | | | |
| banks | \$ 24,949 | \$ 556 | 4.49 | \$ 25,343 | \$ 299 | 2.37 |
| Federal funds sold | 16,186 | 367 | 4.57 | 43,543 | 600 | 2.77 |
| Investment securities - taxable | 410,306 | 7,452 | 3.66 | 434,368 | 6,812 | 3.15 |
| Investment securities - non-taxable | 117,899 | 3,769 | 6.45 | 123,277 | 3,897 | 6.36 |
| Mortgage loans held for sale | 7,498 | 228 | 6.13 | 8,981 | 253 | 5.67 |
| Assets held in trading accounts | 4,604 | 44 | 1.93 | 4,466 | 50 | 2.25 |
| Loans | 1,706,626 | 61,952 | 7.32 | 1,601,062 | 52,754 | 6.63 |
| Total interest earning assets | 2,288,068 | 74,368 | 6.55 | 2,241,040 | 64,665 | 5.80 |
| Non-earning assets | 246,291 | | | 218,908 | | |
| Total assets | \$ 2,534,359 | | | \$ 2,459,948 | | |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | | | | | |
| Liabilities | | | | | | |
| Interest bearing | | | | | | |
| liabilities | | | | | | |
| Interest bearing | | | | | | |
| transaction and savings | | | | | | |
| accounts | \$ 749,154 | \$ 5,453 | 1.47 | \$ 774,928 | \$ 3,494 | 0.91 |
| Time deposits | 1,008,021 | 18,456 | 3.69 | 930,775 | 11,349 | 2.45 |
| Total interest bearing deposits | 1,757,175 | 23,909 | 2.74 | 1,705,703 | 14,843 | 1.75 |
| Federal funds purchased and securities sold under agreement to repurchase | 102,669 | 2,168 | 4.26 | 101,841 | 1,273 | 2.51 |
| Other borrowed funds | | | | | | |
| Short-term debt | 10,775 | 321 | 6.01 | 8,774 | 143 | 3.28 |
| Long-term debt | 83,458 | 2,242 | 5.42 | 92,199 | 2,192 | 4.78 |
| Total interest bearing liabilities | 1,954,077 | 28,640 | 2.96 | 1,908,517 | 18,451 | 1.94 |

Non-interest bearing
liabilities

| | | | | |
|---|--------------|------|--------------|------|
| Non-interest bearing deposits | 313,640 | | 298,926 | |
| Other liabilities | 19,248 | | 15,495 | |
| Total liabilities | 2,286,965 | | 2,222,938 | |
| Stockholders' equity | 247,394 | | 237,010 | |
| Total liabilities and stockholders' equity | \$ 2,534,359 | | \$ 2,459,948 | |
| Net interest spread | | 3.59 | | 3.86 |
| Net interest margin | \$ 45,728 | 4.03 | \$ 46,214 | 4.16 |

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Table 4 shows changes in interest income and interest expense, resulting from changes in volume and changes in interest rates for the three-month and six-month periods ended June 30, 2006, as compared to the same periods of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

| (In thousands, on a fully taxable equivalent basis) | Three Months Ended June 30, 2006 over 2005 | | | Six Months Ended June 30, 2006 over 2005 | | |
|--|---|----------------|--------------|---|----------------|---------------|
| | Volume | Yield/ Rate | Total | Volume | Yield/ Rate | Total |
| Increase (decrease) in | | | | | | |
| Interest income | | | | | | |
| Interest bearing balances due from banks | \$ 51 | \$ 105 | \$ 156 | \$ (5) | \$ 262 | \$ 257 |
| Federal funds sold | (188) | 107 | (81) | (497) | 264 | (233) |
| Investment securities - taxable | (227) | 551 | 324 | (393) | 1,033 | 640 |
| Investment securities - non-taxable | (48) | 41 | (7) | (172) | 44 | (128) |
| Mortgage loans held for sale | (15) | 9 | (6) | (44) | 19 | (25) |
| Assets held in trading accounts | (1) | (5) | (6) | 2 | (8) | (6) |
| Loans | 1,565 | 2,957 | 4,522 | 3,617 | 5,581 | 9,198 |
| Total | 1,137 | 3,765 | 4,902 | 2,508 | 7,195 | 9,703 |
| Interest expense | | | | | | |
| Interest bearing transaction and savings accounts | (67) | 1,117 | 1,050 | (120) | 2,079 | 1,959 |
| Time deposits | 584 | 3,077 | 3,661 | 1,009 | 6,098 | 7,107 |
| Federal funds purchased and securities sold under agreements to repurchase | (68) | 404 | 336 | 10 | 885 | 895 |
| Other borrowed funds | | | | | | |
| Short-term debt | (5) | 100 | 95 | 39 | 139 | 178 |
| Long-term debt | (103) | 147 | 44 | (219) | 269 | 50 |
| Total | 341 | 4,845 | 5,186 | 719 | 9,470 | 10,189 |

| | | | | | | | | | | | | |
|--|----|-----|----|---------|----|-------|----|-------|----|---------|----|-------|
| Increase (decrease) in net interest income | \$ | 796 | \$ | (1,080) | \$ | (284) | \$ | 1,789 | \$ | (2,275) | \$ | (486) |
|--|----|-----|----|---------|----|-------|----|-------|----|---------|----|-------|

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PROVISION FOR LOAN LOSSES

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings, in order to maintain the allowance for loan losses at a level, which is considered adequate, in relation to the estimated risk inherent in the loan portfolio. The level of provision to the allowance is based on management's judgment, with consideration given to the composition, maturity and other qualitative characteristics of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on a quarterly basis to determine the level of provision made to the allowance after considering the factors noted above.

The provision for loan losses for the three-month period ended June 30, 2006, was \$0.8 million, compared to \$1.9 million for the three-month period ended June 30, 2005, a reduction of \$1.1 million. The provision for loan losses for the six-month period ended June 30, 2006, was \$2.5 million, compared to \$4.2 million for the six-month period ended June 30, 2005, a reduction of \$1.7 million. These provision reductions were primarily driven by two factors.

First, credit card net charge-offs were down \$613,000 and \$1.3 million for the three-month and six-month periods ended June 30, 2006, respectively, when compared to the same periods in 2005. Credit card net charge-offs as a percent of the credit card portfolio were 1.01% for the quarter ended June 30, 2006, compared to 2.85% for the same period in 2005. Secondly, there was improvement in the credit quality of the loan portfolio, particularly one large credit relationship that was upgraded two levels from substandard to watch, based upon improved financial condition of the borrower, for which a specific reserve was no longer required. During the quarter ended June 30, 2006, additional loans were classified as non-performing based upon various criteria; however, there were no specific reserve allocations required for these loans. The provision for loan losses was reduced due to the significant reduction in credit card charge-offs and the improvement in credit quality of loans with specific reserves.

NON-INTEREST INCOME

Total non-interest income was \$11.5 million for the three-month period ended June 30, 2006, compared to \$10.8 million for the same period in 2005. For the six-months ended June 30, 2006, non-interest income was \$22.1 million compared to the \$20.9 reported for the same period ended June 30, 2005. Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and credit card fees. Non-interest income also includes income on the sale of mortgage loans, investment banking income, premiums on sale of student loans, income from the increase in cash surrender values of bank owned life insurance, and gains (losses) from sales of securities.

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Table 5 shows non-interest income for the three-month and six-month periods ended June 30, 2006 and 2005, respectively, as well as changes in 2006 from 2005.

Table 5: Non-Interest Income

| (In thousands) | Three Months Ended June 30, | | 2006 Change from | | Six Months Ended June 30, | | 2006 Change from | |
|---|--------------------------------|-----------|---------------------|---------|------------------------------|-----------|---------------------|---------|
| | 2006 | 2005 | 2005 | | 2006 | 2005 | 2005 | |
| Trust income | \$ 1,293 | \$ 1,349 | \$ (56) | (4.15)% | \$ 2,660 | \$ 2,734 | \$ (74) | (2.71)% |
| Service charges on deposit accounts | 4,209 | 4,153 | 56 | 1.35 | 7,972 | 7,567 | 405 | 5.35 |
| Other service charges and fees | 592 | 454 | 138 | 30.40 | 1,250 | 1,039 | 211 | 20.31 |
| Income on sale of mortgage loans, net of commissions | 755 | 712 | 43 | 6.04 | 1,431 | 1,395 | 36 | 2.58 |
| Income on investment banking, net of commissions | 90 | 161 | (71) | (44.10) | 197 | 219 | (22) | (10.05) |
| Credit card fees | 2,699 | 2,584 | 115 | 4.45 | 5,157 | 4,924 | 233 | 4.73 |
| Premiums on sale of student loans | 659 | 642 | 17 | 2.65 | 1,395 | 1,276 | 119 | 9.33 |
| Bank owned life insurance income | 415 | 218 | 197 | 90.37 | 716 | 357 | 359 | 100.56 |
| Other income | 804 | 724 | 80 | 11.05 | 1,350 | 1,558 | (208) | (13.35) |
| Gain (loss) on sale of securities, net of tax | — | (168) | 168 | 100.00% | — | (168) | 168 | 100.00% |
| Total non-interest income | \$ 11,516 | \$ 10,829 | \$ 687 | 6.34% | \$ 22,128 | \$ 20,901 | \$ 1,227 | 5.87% |

Recurring fee income for the three-month period ended June 30, 2006, was \$8.8 million, an increase of \$253,000, or 3.0% from the three-month period ended June 30, 2005. Other service charges and fees increased by \$138,000, primarily due to an increase in ATM income, based on increased volume and an improvement in the fee structure. Recurring fee income for the six-month period ended June 30, 2006, was \$17.0 million, an increase of \$775,000, or 4.8% from the six-month period ended June 30, 2005. Service charges on deposits increased by \$405,000, primarily due to normal growth in transaction accounts and improvement in the fee structure associated with the Company's deposit accounts.

On April 29, 2005, the Company invested an additional \$25 million in Bank Owned Life Insurance ("BOLI"). BOLI income increased by \$197,000 and \$359,000 for the three and six-months ended June 30, 2006, compared to the same periods in 2005. Approximately \$80,000 of the increases can be attributed to an improved earnings credit on the investment. The remainder of the increases primarily relate to the acquisition timing of the investment.

Other non-interest income for the six-months ended June 30, 2006, was \$1.4 million, a decrease of \$208,000 over the six-months ended June 30, 2005. The decrease primarily resulted from a one-time distribution of approximately \$250,000 the Company received in the first quarter of 2005 as part of the proceeds when Pulse EFT, a regional ATM switching network used by the Company, merged with Discover Financial Services.

There were no gains or losses on sale of securities during the three and six-months ended June 30, 2006. During the quarter ended June 30, 2005, the Company sold certain investment securities obtained in a prior acquisition that did not fit its current investment portfolio strategy. As a result of this liquidation, the Company recognized an after-tax loss on sale of securities of \$168,000 for the three and six-months ended June 30, 2005.

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[Back to Table of Contents](#)**NON-INTEREST EXPENSE**

Non-interest expense consists of salaries and employee benefits, occupancy, equipment, foreclosure losses and other expenses necessary for the operation of the Company. Management remains committed to controlling the level of non-interest expense, through the continued use of expense control measures that have been installed. The Company utilizes an extensive profit planning and reporting system involving all affiliates. Based on a needs assessment of the business plan for the upcoming year, monthly and annual profit plans are developed, including manpower and capital expenditure budgets. These profit plans are subject to extensive initial reviews and monitored by management on a monthly basis. Variances from the plan are reviewed monthly and, when required, management takes corrective action intended to ensure financial goals are met. Management also regularly monitors staffing levels at each affiliate, to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for the three-month and six-month periods ended June 30, 2006, was \$22.3 million and \$44.4 million, an increase of \$1.3 million, or 6.4% and \$2.0 million, or 4.8%, respectively, from the same periods in 2005. These increases are primarily the result of an increase in normal ongoing operating expenses and the additional expense associated with the operation of seven new financial centers opened since the second quarter of 2005. The new locations accounted for approximately \$452,000 and \$854,000 of non-interest expense during the three-month and six-month periods ended June 30, 2006, respectively. Normalizing for the expansion expenses, non-interest expense for the three-months and six-months ended June 30, 2006 increased by 4.2% and 2.8%, respectively, over the same periods of 2005.

Credit card expense increased for the three-month and six-month periods ended June 30, 2006 and 2005 by \$111,000, or 17.6%, and \$220,000, or 17.4%, respectively. As a result of previously reported initiatives, the Company converted approximately 15,000 accounts to its Platinum rewards card. The conversion process resulted in increased expense for the rewards program in 2006.

Table 6 below shows non-interest expense for the three-month and six-month periods ended June 30, 2006 and 2005, respectively, as well as changes in 2006 from 2005.

Table 6: Non-Interest Expense

| (In thousands) | Three Months Ended June 30 | | 2006 Change from 2005 | | Six Months Ended June 30 | | 2006 Change from 2005 | |
|---------------------------------|-------------------------------|-----------|-----------------------------|---------|-----------------------------|-----------|-----------------------------|---------|
| | 2006 | 2005 | | | 2006 | 2005 | | |
| Salaries and employee benefits | \$ 13,466 | \$ 12,697 | \$ 769 | 6.06% | \$ 26,971 | \$ 25,529 | \$ 1,442 | 5.65% |
| Occupancy expense, net | 1,541 | 1,394 | 147 | 10.55 | 3,061 | 2,831 | 230 | 8.12 |
| Furniture and equipment expense | 1,456 | 1,406 | 50 | 3.56 | 2,874 | 2,855 | 19 | 0.67 |
| Loss on foreclosed assets | 40 | 55 | (15) | (27.27) | 73 | 103 | (30) | (29.13) |
| Other operating expenses | | | | | | | | |
| Professional services | 639 | 482 | 157 | 32.57 | 1,302 | 1,143 | 159 | 13.91 |
| Postage | 562 | 517 | 45 | 8.70 | 1,135 | 1,138 | (3) | (0.26) |

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| | | | | | | | | |
|-----------------------------|-----------|-----------|----------|--------|-----------|-----------|----------|--------|
| Telephone | 507 | 428 | 79 | 18.46 | 978 | 886 | 92 | 10.38 |
| Credit card expenses | 742 | 631 | 111 | 17.59 | 1,483 | 1,263 | 220 | 17.42 |
| Operating supplies | 411 | 384 | 27 | 7.03 | 815 | 791 | 24 | 3.03 |
| FDIC insurance | 71 | 69 | 2 | 2.90 | 140 | 142 | (2) | (1.41) |
| Amortization of intangibles | 209 | 208 | 1 | 0.48 | 416 | 415 | 1 | 0.24 |
| Other expense | 2,657 | 2,693 | (36) | (1.34) | 5,178 | 5,287 | (109) | (2.06) |
| Total non-interest expense | \$ 22,301 | \$ 20,964 | \$ 1,337 | 6.38% | \$ 44,426 | \$ 42,383 | \$ 2,043 | 4.82% |

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LOAN PORTFOLIO

The Company's loan portfolio averaged \$1.716 billion and \$1.627 billion during the first six months of 2006 and 2005, respectively. As of June 30, 2006, total loans were \$1.738 billion, an increase of \$20.5 million from December 31, 2005. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an adequate allowance for loan losses and regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry and, in the case of credit card loans, which are unsecured, by geographic region. The Company seeks to use diversification within the loan portfolio to reduce credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. The Company uses the allowance for loan losses as a method to value the loan portfolio at its estimated collectible amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were \$350.2 million at June 30, 2006, or 20.1% of total loans, compared to \$370.9 million, or 21.6% of total loans at December 31, 2005. The consumer loan decrease from December 31, 2005 to June 30, 2006 is the result of the decline in the Company's credit card portfolio, along with a seasonal decline in student loans.

As a general rule, the Company's credit card portfolio experiences seasonal fluctuations, reaching its highest level during the fourth quarter and dropping off with paydowns to its lowest level during the first quarter. Even so, the Company continues to experience significant competitive pressure from the credit card industry. Over the last three years, the credit card portfolio has decreased by approximately \$10 to \$12 million each year, primarily due to closed accounts. During the second quarter, the Company experienced some slow-down in this trend. When compared to June 30, 2005, outstanding balances decreased \$8.9 million. When compared to March 31, 2006, the portfolio increased \$2.6 million. This was the first March 31 to June 30 increase since 2001.

In order to reverse the negative trend of closed accounts within the credit card portfolio, the Company introduced initiatives to make the product more competitive. Management believes these initiatives have resulted in some slowing of the number of accounts closed. Net lost accounts have declined from a high of 5,500 in 2002 to only 75 through June 30, 2006. As a continuation of its efforts to stabilize the credit card portfolio, at the end of July the Company is introducing another initiative to increase new accounts. This initiative will be a 7.25% fixed rate card with no fees and no rewards, and, to management's knowledge, is the best fixed rate card in America. This card compliments both the Company's Platinum Rewards product, one of the best reward-based cards in the country, and the Classic VISA product.

Real estate loans consist of construction loans, single-family residential loans and commercial real estate loans. Real estate loans were \$1.085 billion at June 30, 2006, or 62.4% of total loans, compared to the \$1.059 billion, or 61.7% of total loans at December 31, 2005. Construction loans increased \$9.9 million, while single-family residential loans increased by \$7.9 million from December 31, 2005 to June 30, 2006. These increases are primarily due to increased loan demand in various growth areas of Arkansas.

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Commercial loans consist of commercial loans, agricultural loans and loans to financial institutions. Commercial loans were \$290.9 million at June 30, 2006, or 16.7% of total loans, compared to \$274.2 million, or 16.0% of total loans at December 31, 2005. The commercial loan increase is primarily due to seasonal increases in agricultural and commercial loans.

The amounts of loans outstanding at the indicated dates are reflected in Table 7, according to type of loan.

Table 7: Loan Portfolio

| (In thousands) | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Consumer | | |
| Credit cards | \$ 132,464 | \$ 143,058 |
| Student loans | 77,085 | 89,818 |
| Other consumer | 140,631 | 138,051 |
| Real Estate | | |
| Construction | 248,834 | 238,898 |
| Single family residential | 348,777 | 340,839 |
| Other commercial | 487,288 | 479,684 |
| Commercial | | |
| Commercial | 188,480 | 184,920 |
| Agricultural | 86,244 | 68,761 |
| Financial institutions | 16,152 | 20,499 |
| Other | 12,673 | 13,579 |
| Total loans before allowance for loan losses | \$ 1,738,628 | \$ 1,718,107 |

ASSET QUALITY

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and nonaccrual loans) and certain other loans identified by management that are still performing.

Non-performing loans are comprised of (a) nonaccrual loans, (b) loans that are contractually past due 90 days and (c) other loans for which terms have been restructured to provide a reduction or deferral of interest or principal, because of deterioration in the financial position of the borrower. The subsidiary banks recognize income principally on the accrual basis of accounting. When loans are classified as nonaccrual, generally, the accrued interest is charged off and no further interest is accrued. Loans, excluding credit card loans, are placed on a nonaccrual basis either: (1) when there are serious doubts regarding the collectability of principal or interest, or (2) when payment of interest or principal is 90 days or more past due and either (i) not fully secured or (ii) not in the process of collection. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses.

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Credit card loans are classified as impaired when payment of interest or principal is 90 days past due. Litigation accounts are placed on nonaccrual until such time as deemed uncollectible. Credit card loans are generally charged off when payment of interest or principal exceeds 180 days past due, but are turned over to the credit card recovery department, to be pursued until such time as they are determined, on a case-by-case basis, to be uncollectible.

At June 30, 2006, impaired loans were \$12.5 million compared to \$14.8 million at December 31, 2005.

Table 8 presents information concerning non-performing assets, including nonaccrual and other real estate owned.

Table 8: Non-performing Assets

| (\$ in thousands) | June 30, 2006 | December 31, 2005 |
|---|------------------|----------------------|
| Nonaccrual loans | \$ 9,556 | \$ 7,296 |
| Loans past due 90 days or more (principal or interest payments) | 1,210 | 1,131 |
| Total non-performing loans | 10,766 | 8,427 |
| Other non-performing assets | | |
| Foreclosed assets held for sale | 1,740 | 1,540 |
| Other non-performing assets | — | 16 |
| Total other non-performing assets | 1,740 | 1,556 |
| Total non-performing assets | \$ 12,506 | \$ 9,983 |
| Allowance for loan losses to non-performing loans | 243.12% | 319.48% |
| Non-performing loans to total loans | 0.62% | 0.49% |
| Non-performing assets to total assets | 0.48% | 0.40% |
| Non-performing assets ratio ⁽¹⁾ | 0.72% | 0.58% |

(1) $(\text{Non-performing loans} + \text{foreclosed assets}) / (\text{total loans} + \text{foreclosed assets})$

There was no interest income on the nonaccrual loans recorded for the six-month periods ended June 30, 2006 and 2005.

ALLOWANCE FOR LOAN LOSSES**Overview**

The Company maintains an allowance for loan losses. This allowance is created through charges to income and maintained at a sufficient level to absorb expected losses in the Company's loan portfolio. The allowance for loan losses is determined monthly based on management's assessment of several factors such as 1) historical loss experience based on volumes and types, 2) reviews or evaluations of the loan portfolio and allowance for loan losses, 3) trends in volume, maturity and composition, 4) off balance sheet credit risk, 5) volume and trends in delinquencies and non-accruals, 6) lending policies and procedures including those for loan losses, collections and recoveries, 7) national and local economic trends and conditions, 8) concentrations of credit that might affect loss experience across one or more components of the loan portfolio, 9) the experience, ability and depth of lending management and staff and 10) other factors and trends, which will affect specific loans and categories of loans.

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As the Company evaluates the allowance for loan losses, it is categorized as follows: 1) specific allocations, 2) allocations for classified assets with no specific allocation, 3) general allocations for each major loan category and 4) miscellaneous allocations.

Specific Allocations

Specific allocations are made when factors are present requiring a greater reserve than would be required when using the assigned risk rating allocation. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. The evaluation process in specific allocations for the Company includes a review of appraisals or other collateral analysis. These values are compared to the remaining outstanding principal balance. If a loss is determined to be reasonably possible, the possible loss is identified as a specific allocation. If the loan is not collateral dependent, the measurement of loss is based on the expected future cash flows of the loan.

Allocations for Classified Assets with no Specific Allocation

The Company establishes allocations for loans rated “watch” through “doubtful” in accordance with the guidelines established by the regulatory agencies. A percentage rate is applied to each category of these loan categories to determine the level of dollar allocation.

General Allocations

The Company establishes general allocations for each major loan category. This section also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans. The allocations in this section are based on a historical review of loan loss experience and past due accounts. The Company gives consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

Unallocated Portion

Allowance allocations other than specific, classified and general for the Company are included in unallocated.

Reserve for Unfunded Commitments

Historically, the Company has included reserves for unfunded commitments in the allowance for loan losses. On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities. This reserve will be maintained at a level sufficient to absorb losses arising from unfunded loan commitments. The adequacy of the reserve for unfunded commitments is determined monthly based on methodology similar to the Company’s methodology for determining the allowance for loan losses. Future net adjustments to the reserve for unfunded commitments will be included in other non-interest expense.

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An analysis of the allowance for loan losses is shown in Table 9.

Table 9: Allowance for Loan Losses

| (In thousands) | 2006 | 2005 |
|--|-----------|-----------|
| Balance, beginning of year | \$ 26,923 | \$ 26,508 |
| Loans charged off | | |
| Credit card | 1,193 | 2,338 |
| Other consumer | 495 | 600 |
| Real estate | 1,001 | 342 |
| Commercial | 391 | 1,940 |
| Total loans charged off | 3,080 | 5,220 |
| Recoveries of loans previously charged off | | |
| Credit card | 507 | 396 |
| Other consumer | 309 | 291 |
| Real estate | 411 | 77 |
| Commercial | 132 | 802 |
| Total recoveries | 1,359 | 1,566 |
| Net loans charged off | 1,721 | 3,654 |
| Reclassification of reserve related to unfunded commitments ⁽¹⁾ | (1,525) | — |
| Provision for loan losses | 2,497 | 4,159 |
| Balance, June 30 | \$ 26,174 | \$ 27,013 |
| Loans charged off | | |
| Credit card | | 2,612 |
| Other consumer | | 640 |
| Real estate | | 706 |
| Commercial | | 1,748 |
| Total loans charged off | | 5,706 |
| Recoveries of loans previously charged off | | |
| Credit card | | 436 |
| Other consumer | | 345 |
| Real estate | | 174 |
| Commercial | | 1,294 |
| Total recoveries | | 2,249 |
| Net loans charged off | | 3,457 |
| Provision for loan losses | | 3,367 |
| Balance, end of year | | \$ 26,923 |

(1) On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities.

Back to Table of Contents**Provision for Loan Losses**

The amount of provision to the allowance during the six-month periods ended June 30, 2006 and 2005, and for the year ended December 31, 2005, was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on a quarterly basis to determine the level of provision made to the allowance after considering the factors noted above.

Allocated Allowance for Loan Losses

The Company utilizes a consistent methodology in the calculation and application of its allowance for loan losses. Because there are portions of the portfolio that have not matured to the degree necessary to obtain reliable loss statistics from which to calculate estimated losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent when estimating credit losses.

Several factors in the national economy, including sixteen successive interest-rate increases by the Federal Reserve over the past twenty-four months, the effect of fuel prices on the commercial and consumer market, and certain loan sectors which may be exhibiting weaknesses, further justifies the need for unallocated reserves.

The Company's unallocated portion of the allowance increased approximately \$1.9 million during the six-months ended June 30, 2006, offset by a \$2.2 million decrease the allocation for commercial loans. The increase in unallocated is primarily due to the credit quality upgrade of several significant commercial loan customers.

The Company still has some concerns over the uncertainty of the economy and the impact of pricing in the catfish, poultry and timber industries in Arkansas. Based on our analysis of loans within these business sectors, the Company believes the allowance for loan losses is adequate for the period ended June 30, 2006. Management actively monitors the status of these industries as they relate to the Company's loan portfolio and makes changes to the allowance for loan losses as necessary.

An analysis of the allocation of allowance for loan losses is presented in Table 10.

Table 10: Allocation of Allowance for Loan Losses

| (\$ in thousands) | June 30, 2006 | | December 31, 2005 | |
|-------------------|---------------------|------------------------------|---------------------|------------------------------|
| | Allowance Amount | % of loans ⁽¹⁾ | Allowance Amount | % of loans ⁽¹⁾ |
| Credit cards | \$ 3,738 | 7.6% | \$ 3,887 | 8.3% |
| Other consumer | 1,255 | 12.5% | 1,158 | 13.3% |
| Real estate | 9,409 | 62.4% | 9,870 | 61.7% |
| Commercial | 3,699 | 16.7% | 5,857 | 15.9% |
| Other | — | 0.8% | — | 0.8% |
| Unallocated | 8,073 | | 6,151 | |
| Total | \$ 26,174 | 100.0% | \$ 26,923 | 100.0% |

(1) Percentage of loans in each category to total loans

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DEPOSITS

Deposits are the Company's primary source of funding for earning assets and are primarily developed through the Company's network of 81 financial centers as of June 30, 2006. The Company offers a variety of products designed to attract and retain customers with a continuing focus on developing core deposits. The Company's core deposits consist of all deposits excluding time deposits of \$100,000 or more and brokered deposits. As of June 30, 2006, core deposits comprised 78.9% of the Company's total deposits.

The Company continually monitors the funding requirements at each affiliate bank along with competitive interest rates in the markets it serves. Because the Company has a community banking philosophy, managers in the local markets establish the interest rates being offered on both core and non-core deposits. This approach ensures that the interest rates being paid are competitively priced for each particular deposit product and structured to meet each affiliate bank's respective funding requirements. The Company believes it is paying a competitive rate, when compared with pricing in those markets. As a result, year-to-date internal deposit growth was \$50.4 million. More specifically, total deposits as of June 30, 2006, were \$2.110 billion versus \$2.060 billion on December 31, 2005.

The Company manages its interest expense through deposit pricing and does not anticipate a significant change in total deposits. The Company believes that additional funds can be attracted and deposit growth can be accelerated through promotion and deposit pricing if it experiences accelerated loan demand or other liquidity needs beyond its current projections. The Company began to utilize brokered deposits during 2005 as an additional source of funding to meet liquidity needs.

Total time deposits increased approximately \$39.2 million to \$1.018 billion at June 30, 2006, from \$978.9 million at December 31, 2005. Non-interest bearing transaction accounts decreased \$167,000 to \$330.9 million at June 30, 2006, compared to \$331.1 million at December 31, 2005. Interest bearing transaction and savings accounts were \$761.3 million at June 30, 2006, an \$11.4 million increase compared to \$750.0 million on December 31, 2005. The Company had \$53.9 million and \$50.7 million of brokered deposits at June 30, 2006 and December 31, 2005, respectively.

LONG-TERM DEBT

During the six month period ended June 30, 2006, the Company decreased long-term debt by \$3.9 million, or 4.5% from December 31, 2005. This decrease is primarily the result of scheduled principal pay downs on FHLB long-term advances.

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CAPITAL

Overview

At June 30, 2006, total capital reached \$247.2 million. Capital represents shareholder ownership in the Company - the book value of assets in excess of liabilities. At June 30, 2006, the Company's equity to asset ratio was 9.52% compared to 9.67% at year-end 2005.

Capital Stock

At the Company's annual shareholder meeting held on March 30, 2004, the shareholders approved an amendment to the Articles of Incorporation reducing the par value of the Class A Common Stock from \$1.00 to \$0.01 and eliminating the authority of the Company to issue Class B common stock, Class A Preferred Stock and Class B Preferred Stock.

Stock Repurchase

On May 25, 2004, the Company announced the adoption by the Board of Directors of a stock repurchase program. The program authorizes the repurchase of up to 5% of the then outstanding Common Stock, or 733,485 shares. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock dividends and general corporate purposes.

During the six-month period ended June 30, 2006, the Company repurchased 164,900 shares of stock under the repurchase plan with a weighted average repurchase price of \$27.49 per share. Under the current stock repurchase plan, the Company can repurchase an additional 379,167 shares.

Cash Dividends

The Company declared cash dividends on its common stock of \$0.33 per share for the first six months of 2006 compared to \$0.30 per share for the first six months of 2005. In recent years, the Company increased dividends no less than annually and presently plans to continue with this practice.

Parent Company Liquidity

The primary sources for payment of dividends by the Company to its shareholders and the share repurchase plan are the current cash on hand at the parent company plus the future dividends received from the eight affiliate banks. Payment of dividends by the eight affiliate banks is subject to various regulatory limitations. Reference is made to the Liquidity and Market Risk Management discussions of Item 3 - Quantitative and Qualitative Disclosure About Market Risk for additional information regarding the parent company's liquidity.

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Risk Based Capital

The Company's subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of June 30, 2006, the Company meets all capital adequacy requirements to which it is subject.

As of the most recent notification from regulatory agencies, the subsidiaries were well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and subsidiaries must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institutions' categories.

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The Company's risk-based capital ratios at June 30, 2006 and December 31, 2005, are presented in table 11.

Table 11: Risk-Based Capital

| (\$ in thousands) | June 30, 2006 | December 31, 2005 |
|--|---------------------|----------------------|
| Tier 1 capital | | |
| Stockholders' equity | \$ 247,179 | \$ 244,085 |
| Trust preferred securities | 30,000 | 30,000 |
| Intangible assets | (64,781) | (65,278) |
| Unrealized loss on available-for-sale securities | 5,735 | 4,360 |
| Total Tier 1 capital | 218,133 | 213,167 |
| Tier 2 capital | | |
| Qualifying unrealized gain on available-for-sale equity securities | 173 | 338 |
| Qualifying allowance for loan losses | 22,359 | 21,811 |
| Total Tier 2 capital | 22,532 | 22,149 |
| Total risk-based capital | \$ 240,665 | \$ 235,316 |
| Risk weighted assets | \$ 1,783,411 | \$ 1,739,771 |
| Assets for leverage ratio | \$ 2,488,304 | \$ 2,475,428 |
| Ratios at end of period | | |
| Leverage ratio | 8.77% | 8.61% |
| Tier 1 capital | 12.23% | 12.25% |
| Total risk-based capital | 13.49% | 13.53% |
| Minimum guidelines | | |
| Leverage ratio | 4.00% | 4.00% |
| Tier 1 capital | 4.00% | 4.00% |
| Total risk-based capital | 8.00% | 8.00% |

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this quarterly report may not be based on historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “estimate,” “expect,” “foresee,” “may,” “might,” “will,” “would,” “could” or “intend,” future or conditional verb tenses, and variations or negatives of such terms. The forward-looking statements include, without limitation, those relating to the Company’s future growth, revenue, assets, asset quality, profitability and customer service, critical accounting policies, net interest margin, non-interest revenue, market conditions related to the Company’s stock repurchase program, allowance for loan losses, the effect of certain new accounting standards on the Company’s financial statements, income tax deductions, credit quality, the level of credit losses from lending commitments, net interest revenue, interest rate sensitivity, loan loss experience, liquidity, capital resources, market risk, earnings, effect of pending litigation, acquisition strategy, legal and regulatory limitations and compliance and competition.

We caution the reader not to place undue reliance on the forward-looking statements contained in this Report in that actual results could differ materially from those indicated in such forward-looking statements, due to a variety of factors. These factors include, but are not limited to, changes in the Company’s operating or expansion strategy, availability of and costs associated with obtaining adequate and timely sources of liquidity, the ability to maintain credit quality, possible adverse rulings, judgments, settlements and other outcomes of pending litigation, the ability of the Company to collect amounts due under loan agreements, changes in consumer preferences, effectiveness of the Company’s interest rate risk management strategies, laws and regulations affecting financial institutions in general or relating to taxes, the effect of pending or future legislation, the ability of the Company to repurchase its Common Stock on favorable terms and other risk factors. Other relevant risk factors may be detailed from time to time in the Company’s press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this Report.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

Parent Company

The Company has leveraged its investment in subsidiary banks and depends upon the dividends paid to it, as the sole shareholder of the subsidiary banks, as a principal source of funds for dividends to shareholders, stock repurchase and debt service requirements. At June 30, 2006, undivided profits of the Company's subsidiaries were approximately \$139 million, of which approximately \$11 million was available for the payment of dividends to the Company without regulatory approval. In addition to dividends, other sources of liquidity for the Company are the sale of equity securities and the borrowing of funds.

Banking Subsidiaries

Generally speaking, the Company's banking subsidiaries rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash used in investing activities. Typical of most banking companies, significant financing activities include: deposit gathering; use of short-term borrowing facilities, such as federal funds purchased and repurchase agreements; and the issuance of long-term debt. The banks' primary investing activities include loan originations and purchases of investment securities, offset by loan payoffs and investment maturities.

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors and borrowers, by either converting assets into cash or accessing new or existing sources of incremental funds. A major responsibility of management is to maximize net interest income within prudent liquidity constraints. Internal corporate guidelines have been established to constantly measure liquid assets, as well as relevant ratios concerning earning asset levels and purchased funds. The management and board of directors of each bank subsidiary monitor these same indicators and make adjustments as needed. At June 30, 2006, each subsidiary bank was within established guidelines and total corporate liquidity remains strong. At June 30, 2006, cash and cash equivalents, trading and available-for-sale securities and mortgage loans held for sale were 20.0% of total assets, as compared to 19.2% at December 31, 2005.

Liquidity Management

The objective of the Company's liquidity management is to access adequate sources of funding to ensure that cash flow requirements of depositors and borrowers are met in an orderly and timely manner. Sources of liquidity are managed so that reliance on any one funding source is kept to a minimum. The Company's liquidity sources are prioritized for both availability and time to activation.

The Company's liquidity is a primary consideration in determining funding needs and is an integral part of asset/liability management. Pricing of the liability side is a major component of interest margin and spread management. Adequate liquidity is a necessity in addressing this critical task. There are six primary and secondary sources of liquidity available to the Company. The particular liquidity need and timeframe determine the use of these sources.

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The first source of liquidity available to the Company is Federal funds. Federal funds, primarily from downstream correspondent banks, are available on a daily basis and are used to meet the normal fluctuations of a dynamic balance sheet. In addition, the Company and its affiliates have approximately \$106 million in Federal funds lines of credit from upstream correspondent banks that can be accessed, when needed. In order to ensure availability of these upstream funds, the Company has a plan for rotating the usage of the funds among the upstream correspondent banks, thereby providing approximately \$40 million in funds on a given day. Historical monitoring of these funds has made it possible for the Company to project seasonal fluctuations and structure its funding requirements on month-to-month basis.

A second source of liquidity is the retail deposits available through the Company's network of affiliate banks throughout Arkansas. Although this method can be somewhat of a more expensive alternative to supplying liquidity, this source can be used to meet intermediate term liquidity needs.

Third, the Company's affiliate banks have lines of credits available with the Federal Home Loan Bank. While the Company uses portions of those lines to match off longer-term mortgage loans, the Company also uses those lines to meet liquidity needs. Approximately \$367 million of these lines of credit are currently available, if needed.

Fourth, the Company uses a laddered investment portfolio that ensures there is a steady source of intermediate term liquidity. These funds can be used to meet seasonal loan patterns and other intermediate term balance sheet fluctuations. Approximately 69% of the investment portfolio is classified as available-for-sale. The Company also uses securities held in the securities portfolio to pledge when obtaining public funds.

The fifth source of liquidity is the ability to access large deposits from both the public and private sector to fund short-term liquidity needs.

Finally, the Company has established a \$5 million unsecured line of credit with a major commercial bank that could be used to meet unexpected liquidity needs at both the parent company level as well as at any affiliate bank.

The Company believes the various sources available are ample liquidity for short-term, intermediate-term and long-term liquidity.

Market Risk Management

Market risk arises from changes in interest rates. The Company has risk management policies to monitor and limit exposure to market risk. In asset and liability management activities, policies are in place designed to minimize structural interest rate risk. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

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Interest Rate Sensitivity

Interest rate risk represents the potential impact of interest rate changes on net income and capital resulting from mismatches in repricing opportunities of assets and liabilities over a period of time. A number of tools are used to monitor and manage interest rate risk, including simulation models and interest sensitivity gap analysis. Management uses simulation models to estimate the effects of changing interest rates and various balance sheet strategies on the level of the Company's net income and capital. As a means of limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed-rate assets and liabilities, change pricing schedules and manage investment maturities during future security purchases.

The simulation models incorporate management's assumptions regarding the level of interest rates or balance changes for indeterminate maturity deposits for a given level of market rate changes. These assumptions have been developed through anticipated pricing behavior. Key assumptions in the simulation models include the relative timing of prepayments, cash flows and maturities. In addition, the impact of planned growth and anticipated new business is factored into the simulation models. These assumptions are inherently uncertain and, as a result, the models cannot precisely estimate net interest income or precisely predict the impact of a change in interest rates on net income or capital. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

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Table A below presents the Company's interest rate sensitivity position at June 30, 2006. This analysis is based on a point in time and may not be meaningful because assets and liabilities are categorized according to contractual maturities, repricing periods and expected cash flows rather than estimating more realistic behaviors, as is done in the simulation models. Also, this analysis does not consider subsequent changes in interest rate level or spreads between asset and liability categories.

Table A: Interest Rate Sensitivity

| (In thousands, except ratios) | Interest Rate Sensitivity Period | | | | | | | Total |
|---|----------------------------------|---------------|----------------|-----------------|--------------|--------------|-----------------|------------|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181-365 Days | 1-2 Years | 2-5 Years | Over 5 Years | |
| Short-term investments | \$ 48,835 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 48,835 |
| Assets held in trading accounts | 4,606 | — | — | — | — | — | — | 4,606 |
| Investment securities | 8,258 | 22,898 | 45,770 | 58,611 | 92,871 | 128,528 | 170,893 | 527,829 |
| Mortgage loans held for sale | 13,248 | — | — | — | — | — | — | 13,248 |
| Loans | 571,174 | 226,815 | 158,981 | 276,161 | 270,170 | 224,280 | 11,047 | 1,738,628 |
| Total earning assets | 646,121 | 249,713 | 204,751 | 334,772 | 363,041 | 352,808 | 181,940 | 2,333,146 |
| Interest bearing liabilities | | | | | | | | |
| Interest bearing transaction and savings deposits | 411,436 | — | — | — | 69,982 | 209,947 | 69,981 | 761,346 |
| Time deposits | 100,301 | 171,648 | 258,484 | 267,113 | 196,704 | 23,848 | — | 1,018,098 |
| Short-term debt | 134,738 | — | — | — | — | — | — | 134,738 |
| Long-term debt | 10,885 | 3,395 | 3,355 | 4,233 | 9,981 | 16,304 | 34,920 | 83,073 |
| Total interest bearing liabilities | 657,360 | 175,043 | 261,839 | 271,346 | 276,667 | 250,099 | 104,901 | 1,997,255 |
| Interest rate sensitivity Gap | \$ (11,239) | \$ 74,670 | \$ (57,088) | \$ 63,426 | \$ 86,374 | \$ 102,709 | \$ 77,039 | \$ 335,891 |
| Cumulative interest rate | \$ (11,239) | \$ 63,431 | \$ 6,343 | \$ 69,769 | \$ 156,143 | \$ 258,852 | \$ 335,891 | |

| | | | | | | | |
|----------------|-------|--------|--------|--------|--------|--------|--------|
| sensitivity | | | | | | | |
| Gap | | | | | | | |
| Cumulative | | | | | | | |
| rate sensitive | | | | | | | |
| asset to rate | | | | | | | |
| sensitive | | | | | | | |
| liabilities | 98.3% | 107.6% | 100.6% | 105.1% | 109.5% | 113.7% | 116.8% |
| Cumulative | | | | | | | |
| Gap as a % of | | | | | | | |
| earning assets | -0.5% | 2.7% | 0.3% | 3.0% | 6.7% | 11.1% | 14.4% |

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in 15 C.F.R. 240.13a-15(e) or 15 C.F.R. 240.15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

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Back to Table of Contents**Part II: Other Information****Item 1A. Risk Factors**

There has not been any material change in the risk factors disclosure from that contained in the Company's 2005 Form 10-K for the fiscal year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Recent Sales of Unregistered Securities. The following transactions are sales of unregistered shares of Class A Common Stock of the Company which were issued to executive and senior management officers upon the exercise of rights granted under (i) the Simmons First National Corporation Incentive and Non-qualified Stock Option Plan (ii) the Simmons First National Corporation Executive Stock Incentive Plan, or (iii) the Simmons First National Corporation Executive Stock Incentive Plan - 2001. No underwriters were involved and no underwriter's discount or commissions were involved. Exemption from registration is claimed under Section 4(2) of the Securities Act of 1933 as private placements. The Company received cash or exchanged shares of the Company's Class A Common Stock as the consideration for the transactions.

| Identity ⁽¹⁾ | Date of Sale | Number of Shares | Price ⁽²⁾ | Type of Transaction |
|-------------------------|--------------|------------------|----------------------|------------------------|
| 1 Officer | April, 2006 | 300 | 10.56 | Incentive Stock Option |
| 1 Officer | April, 2006 | 2,000 | 12.12 | Incentive Stock Option |
| 1 Officer | April, 2006 | 300 | 12.22 | Incentive Stock Option |
| 1 Officer | April, 2006 | 100 | 16.00 | Incentive Stock Option |
| 1 Officer | May, 2006 | 1,000 | 12.12 | Incentive Stock Option |
| 3 Officers | June, 2006 | 700 | 10.56 | Incentive Stock Option |
| 2 Officers | June, 2006 | 400 | 12.22 | Incentive Stock Option |
| 1 Officer | June, 2006 | 800 | 15.35 | Incentive Stock Option |

(1) The transactions are grouped to show sales of stock based upon exercises of rights by officers of the registrant or its subsidiaries under the stock plans, which occurred at the same price during a calendar month.

(2) The per share price paid for incentive stock options represents the fair market value of the stock as determined under the terms of the Plan on the date the incentive stock option was granted to the officer. The price paid and numbers of shares issued have been adjusted to reflect the effect of the 50% stock dividend paid on December 6, 1996 and the two for one stock split on May 1, 2003.

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(c) Issuer Purchases of Equity Securities. The Company made the following purchases of its common stock during the three months ended June 30, 2006:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet be Purchased Under the Plans |
|--------------------|--|------------------------------------|--|--|
| April 1 - April 30 | 2,700 | 28.55 | 2,700 | 451,867 |
| May 1 - May 31 | 17,000 | 26.44 | 17,000 | 434,867 |
| June 1 - June 30 | 55,700 | 26.74 | 55,700 | 379,167 |
| Total | 75,400 | \$ 26.74 | 75,400 | |

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual shareholders meeting of the Company was held on April 11, 2006. The matters submitted to the security holders for approval included (1) setting the number of directors at seven (7), (2) the election of seven (7) directors, (3) adoption of the Simmons First National Corporation 2006 Employee Stock Purchase Plan, (4) adoption of the Simmons First National Corporation Executive Stock Incentive Plan - 2006 and (5) adoption of the Simmons First National Corporation Outside Director Stock Incentive Plan - 2006.

(b) At the annual meeting, all seven (7) incumbent directors were re-elected by proxies solicited pursuant to Section 14 of the Securities Exchange Act of 1934, without any solicitation in opposition thereto.

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10.2 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust II (incorporated by reference to Exhibit 10.2 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

10.3 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust II (incorporated by reference to Exhibit 10.3 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

10.4 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.4 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

10.5 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.5 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

10.6 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust III (incorporated by reference to Exhibit 10.6 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

10.7 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Robert A. Fehlman as administrative trustees, with respect to Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.7 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

10.8 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.8 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

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10.9 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust IV (incorporated by reference to Exhibit 10.9 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

10.10 Long-Term Executive Incentive Agreement, dated as of January 1, 2005, by and between the Company and J. Thomas May (incorporated by reference to Exhibit 10.10 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2005 (File No. 0-6253)).

14 Code of Ethics, dated December 2003, for CEO, CFO, controller and other accounting officers (incorporated by reference to Exhibit 14 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 0-6253)).

31.1 Rule 13a-14(a)/15d-14(a) Certification - J. Thomas May, Chairman and Chief Executive Officer.*

31.2 Rule 13a-14(a)/15d-14(a) Certification - Robert A. Fehlman, Chief Financial Officer.*

32.1 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - J. Thomas May, Chairman and Chief Executive Officer.*

32.2 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Robert A. Fehlman, Chief Financial Officer.*

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIMMONS FIRST NATIONAL CORPORATION
(Registrant)

Date: August 7, 2006

By: /s/ J. Thomas May

Name: J. Thomas May
Title: Chairman and Chief Executive Officer

Date: August 7, 2006

By: /s/ Robert A. Fehlman

Name: Robert A. Fehlman
Title: Executive Vice President and Chief Financial Officer